

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

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P 142139Z MAY 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 3468

C O N F I D E N T I A L OTTAWA 1466

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: ENERGY: INCREASE IN JUNE CRUDE OIL EXPORT CHARGE.

1. NATIONAL ENERGY BOARD (NEB) INFORMED EMBOFF LATE MAY 13 THAT "JUST AND REASONABLE" PRICE FOR EXPORT OF CANADIAN CRUDE OIL REQUIRES AN INCREASE IN JUNE EXPORT CHARGE TO \$5.20 PER BARREL. ENERGY MINISTER MACDONALD HAS ACCORDINGLY INFORMED PRODUCERS AND EXPORTERS AND REQUESTED THAT THE MONIES BE REMITTED TO THE RECEIVER GENERAL FOR CANADA PENDING PARLIAMENTARY ACTION TO RATIFY THE CHARGE.

2. MONTREAL GAZETTE OF MAY 14 ATTRIBUTES MACDONALD WITH SAYING THAT INCREASE IN EXPORT CHARGE IS NEEDED BECAUSE MORE REVENUE IS REQUIRED TO HELP OFFSET THE RISING PRICE FOR FOREIGN OIL IMPORTED BY EASTERN CANADA.

3. EMBOFF HAS BEEN UNSUCCESSFUL IN OBTAINING FROM NEB PRECISE RATIONALE FOR THIS LATEST TAX INCREASE. IN RESPONSE TO DIRECT QUESTION WHETHER FOREIGN OIL PRICES HAS INCREASED AND TO SUCH EXTENT AS TO JUSTIFY 30 PERCENT IN TAX, NEB OFFICIAL WOULD ONLY RESPOND THAT THAT
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COULD BE ONE INFERENCE BUT NOT ONE THAT THE NEB WOULD

NECESSARILY MAKE. CLAIMING THAT PRICE CALCULATIONS WERE SO COMPLEX THAT THEY VIRTUALLY DEFIED EXPLANATION, NEB OFFICIAL STATED THAT NEB HAD CLOSELY CONSULTED WITH DEPARTMENT OF ENERGY, MINES AND RESOURCES (EMR) BECAUSE OF THAT AGENCY'S RESPONSIBILITY FOR CALCULATING AND ADMINISTERING THE FEDERAL OIL SUBSIDY PROGRAM FOR THE EASTERN PROVINCES. HE IMPLIED THAT THE NEB HAD OBTAINED FROM EMR STATISTICS ON TOTAL FOREIGN EXCHANGE COST OF OIL IMPORTS, DIVIDED THESE BY NUMBER OF BARRELS IMPORTED, AND THUS ARRIVED AT AVERAGE COST OF IMPORTED OIL. PRESUMABLY THE DIFFERENCE BETWEEN THIS PRICE AND DOMESTIC CRUDE DELIVERED TO MONTREAL (\$7.20 PER BARREL) RESULTS IN THE JUNE EXPORT TAX AT THE \$5.20 PER BARREL LEVEL. CONVERSELY, AND IF THE ASSUMPTIONS ARE CORRECT, CANADA IS NOW PAYING AN AVERAGE OF \$12.40 PER BARREL FOR FOREIGN OIL.

4. COMMENT: EMBOFF HAS FOUND NEB OFFICIALS UNCHARACTER-ISTICALLY SKITTISH AND RETICENT TO DISCUSS THE JUNE TAX DETERMINATION. WHEREAS IN THE PAST, THE RATIONALE FOR THE LEVEL OF THE TAX HAS OSTENSIBLY BEEN THE PRICE WHICH THE U.S. IS PAYING FOR OTHER IMPORTED OIL, THE PRESENT CALCULATION SEEMS TO HAVE SHIFTED TO WHAT OFF-SHORE OIL IS COSTING CANADIANS AND TO THE SIZE OF THE FEDERAL SUBSIDY TO EASTERN CANADA.
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